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Small family business - guarantor of economic and social development

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Abstract

The global economic integration, as a process, has an increasing impact on the national development policies, and due to being such, it is extremely difficult to control the application of traditional methods and instruments for economic development. It may be difficult to plan certain economic goals at the state level in advance. All enterprises in the world, big or small, domestic and non-domestic, public or non-public, developed and underdeveloped, are facing a series of questions that have to do with their future and prospects, respectively, their existence in surroundings with unforeseen turbulent situations comes into question?

What will the market needs be? What are competition aims? Are the customers' attitudes shaking towards claims that technological progress? What about the development of new product? Is there a possibility of providing the necessary resources, guides towards globalization of business, which need to be used to achieve the efficiency, effectiveness and innovation, etc.... all these questions were addressed every day by the enterprises - regardless of whether they are family owned or not. What it is that makes family enterprises special and separates them from other companies which are not owned or family-controlled, represents the diversity of family interest and the interest of the company's unique business family system.

Owners of family companies across the world share the same philosophy and values, they think in perspective, their capital is made of patience and diligence, care about the communities where they operate and work, so that the company is left at its best condition for inheritance. The business model of family companies is highly innovative and forward-looking, seeking to a better realization, creates more value, and preserves jobs, despite cyclical downturns and recessions.

The development of small and medium-sized family enterprise represents the fastest way and cheaper to develop national economies. SME are the backbone of economic development of countries in

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transition and supports the major role in employment that they are very significant for the democratization of society.

Keywords: *small business, family business, local economic development, family, management.*

Introduction

Statistics show that most family businesses have a lifespan that leaves much to be desired, 95 % of family businesses do not survive the third generation of family ownership. Family businesses constitute the most prevalent form and oldest business organization, representing more than 70 % of overall business and plays a decisive role in the economic development of an environment.¹

If we analyze the structure of the private economy in Kosovo appears that most regard to family business. The formal structure of the personnel qualification and owners and managers in private enterprises is supposed to be:

54 % of owners and managers who have completed high school or university;

26 % of staff in private enterprises have higher education and universities;

60% of secondary schools and

14 % other.²

The skills and knowledge were not responsive to the needs of the market economy. Innovation and reconstruction of their knowledge is

¹ Elona, Gusmari. " Si të mbijetoni në një biznes familjar ", *Monitor*, 379, Tiranë, Mars 2015. (126 – 135). (also accessible <http://www.monitor.al/site-mbijetoni-ne-nje-biznes-familjar>. vizit: 17/04/2015)

² Safet, Gërxhaliu. " Niveli i edukimit Ekonomik në Kosovë ", *Oda Ekonomike e Kosovës*, Prishtinë, 2013. (1 – 13). (also accessible http://webcache.googleusercontent.com/search?q=cache:n6vqkcv4P5kJ:wordpress.p203352.webspaceconfig.de/wp-content/uploads/2013/09/Gerxhaliu_Programi-i-Edukimit-Biznesor-ne-Kosove-ALB.ppt+&cd=1&hl=en&ct=clnk&gl=rs vizituar: 19/04/2015)

necessary. The characteristic of these economies, especially those in the field of agribusiness, is that they lack:

- Knowledge of business in market condition,
- Market -oriented approach and
- Contemporary management of the firm.

Another problem is the low economic activity of women. Specific forms of education and organization for business women are also one of the important areas for future activities.

The situation described makes the immediate need to change the situation through the complex in the most important segments and business education at various levels.

Implementing a complex program to improve the situation regarding business education, management and training and infrastructure network should transmit it should be viewed as one of the most important components of the transition in Kosovo and the development of entrepreneurial philosophy. This represents an important factor in creating the preconditions for the development of existing private enterprises and generating new enterprises, to develop entrepreneurial skills and entrepreneurial spirit, culture and business ethics as the most efficient route to strengthen the business community in Kosovo.

In this regard, the mission should be the reduction of the gap between the requirements for entrepreneurs and managers of the market economy and the reality - knowledge and skills to provide education system and other forms of business education in Kosovo, while SYNIMI would meeting the new demands for knowledge in the field of entrepreneurship and business, which should provide education that enables access to the circumstances that create "chance for self-employment" and ensure economic growth through "job creation".

The definition of family business

Family business enterprises means that most items are on hand to the family that controls it, including the founders who intend to leave enterprises to their heirs. In family businesses, work is managed by

the family. To define the family business some serious commitment is required, during which the advance should answer questions such as:

- What is meant by the family?
- The extent to which the property must be in the hands of the family;
- How many family members should be employed, in order to be considered a family enterprise, etc.

However, for a stable definition of family businesses we need to hold the so-called standard or dimensions such as: ownership, participation of family members, the transition (continuity) between generations, and the combination of these parameters. There is no exact definition of family business (about 90 such known) as there is no standardized statistical monitoring of family businesses. On the proposal of the expert group on the definition of family business provides:³

Family business despite the size is:

- Decision-making in the majority lies in the hands of the person who is the founder of the business, or the person who has bought a piece of the company, or their relatives closer directly;
- Most of the rights in decision making, directly or indirectly;
- At least one member of the family to be formally involved in managing the company;
- In the shareholding of the enterprise, the owner's part of the enterprise or members of his family is at least 25% right in decision making;

Economic development at local and family businesses

Inequality of Regional economy is growing even more into integration of national economies into the world market, the disparity between municipalities is not diminishing, but the opposite thing is happening.

³ Commission, European. "Final report of the expert grup", Bruksel, November 2009. (4-32). (also accessible: http://ec.europa.eu/enterprise/policies/sme/promoting-entrepreneurship/family-business/family_business_expert_group_report_en.pdf/ vizit: 15/04/2015)

To find an adequate response to this problem not only economic but also social aspect is more than obvious, that national development policy makers should pay a special attention and care, what is happening at the local level, so as to be more creative in the design of adequate instruments and concrete measures through which could be helped certain local communities to emerge from the problems which affect the economic, social progress and social peace. If a local community could solve the problem of increasing employment and economic growth more or less than another community within the state, there is an issue which could be accomplished through a government strategy for development, but a concrete response will be able to find within the local community. Most Balkan states, during the '90 follow the logic of assistance to local communities, so that they can maintain and enhance existing enterprises both locally, creating such policies to attract investors in certain sectors or even in specific geographical areas. Instruments of this phase of local economic development were direct payments to enterprises, business incubators, advice and training for small and medium sized enterprises, technical support and informational support of the so-called start / up businesses and certain investments in infrastructure. In the recent years, the focus has shifted towards creating the most favorable environment for business, particularly in the investment of the so-called soft infrastructure in public - private partnership, supporting private sector investments for the public good. To achieve this, all municipalities and cities have provided a competitive climate for local investment, encouraged cooperation and education, have supported the improvement of quality of life, however, not every community today apply instruments that are currently in vogue, because local conditions vary from community to community. What is good for a municipality may not be so good for another municipality, due to the level of development and capacity with which it owns. For this, special programs must be prepared to each municipality or city specifically designed based on the strengths and weaknesses that the community has in question and based on potential opportunities that distinguish these municipalities, as well as potential risks.

According to the Agency for Registration of Businesses in Kosovo (ABR), at the end of 2011, SME - (including micro-enterprises) accounted for approximately 99.97 % of all businesses operating in the country (for more details, see table no. 1 below).

Table 1. Statistics on companies according to their size (2007-2011)⁴

	2007		2008		2009		2010		2011	
	Nr.	%	Nr.	%	Nr.	%	Nr.	%	Nr.	%
Micro enterprises	6,744	96.79	8,242	97.50	9,798	97.48	9,420	98.00	9,919	98.40
Small	178	2.55	160	1.89	215	2.14	165	1.72	139	1.38
Medium enterprises	40	0.57	43	0.51	31	0.31	21	0.22	19	0.19
Total SMES	6,962	99.91	8,445	99.91	10,044	99.93	9,606	99.94	10,077	99.97
Large enterprises	6	0.09	8	0.09	7	0.07	6	0.06	3	0.03
TOTAL	6,968	100%	8,453	100%	10,051	100%	9,612	100%	10,080	100%

Source: Agency for Registration of Businesses in Kosovo

As the table shows, from 2007 to 2011 the number of SMEs -'ve been growing at a rate of about 20% each year, while overall growth during the past five years was about 35%, but there is no data available on the number SME - s that are closed and bankrupt. On the other hand, ABR data - show that by the end of 2011 SMEs - to have participated in total employment with 232,411 employees, or about 63% of the total number of persons employed in the enterprise (Table no. 2 below), but still no data available about the number of people employed by SMEs - to every year.

⁴ Task Forca për Integrim Evropian. " Material për diskutim për fushën e industrisë dhe NVM-ve " Pristina, 2012. (2-5) (also accessible: http://www.mei-ks.net/repository/docs/Material_Diskutues_Ndermarrjet_e_Vogla_dhe_te_Mesme.pdf vizit 16/04/2015)

According to the European Commission, more than 90% of enterprises employing fewer than four people⁵. Moreover, it is estimated that all enterprises have generated 47.6% of total exports of the country in 2011, and according to the Tax Administration of Kosovo, 2010, SMEs - to have participated with 43.3% the GDP of the country⁶. On the other hand, estimated considering the number of people newly entering the labor market every year, Kosovo needs a real economic growth of at least 7%.⁷

Table no. 2: Number of workers employed in the enterprise in December

Categories of SME - s	The number of enterprises	Number of employees
Micro enterprises (1-9 employees)	109.798	185.123
Small (10-49 employees)	1.508	24.877
Sized enterprises (50-249 employees)	224	22.411
Total SMEs	11.530	232.411
Large firms (over 250 employees)	60	137.096
TOTAL	111.590	369.507

Source: Agency for Registration of Businesses in Kosovo

⁵ Task Forca për Integrim Evropian. " Material për diskutim për fushën e industrisë dhe NVM-ve ", Pristina, 2012. (2 - 5) (also accessible: http://www.mei-ks.net/repository/docs/Material_Diskutues_Ndermarrjet_e_Vogla_dhe_te_Mesme.pdf vizit 16/04/2015)

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⁷ Republika e Kosovës. " NVM Strategjia e Zhvillimit për Kosovën 2012 - 2016 ", Pristina, 2011. (6 - 54) (also accessible: http://www.kryeministri-ks.net/repository/docs/Strategjia_per_zhvillimin_e_NVM-ve_-_Korrik_2011.pdf vizit 16/04/2015)

Limiting factors are reflected in the slow action of legal regulatory, legal outdated infrastructure, in the small market and the lack of entrepreneurial skills, lack of authority and resources to solve local problems due to the slow process of decentralization.

From what was said above, it can be concluded that the acceleration of local economic development needs for the application of two packages of measures. The first package is not in the hands of local authorities and as such it has to do with the approval of the other tax system that will help them developing healthy competition and diversified gas. There is a need for a completely different system that allows tax: different tax rates for major taxes municipalities and cities in order to be more incentive for individuals and companies, what should be done more effectively at a level lower, should not be raised to a higher level and vice versa, and other levels of local government that are lower than the central government should allow the opportunity to enjoy the financial markets. The second package has to do with measures relating to best use available resources. This includes obtaining all relevant permits in one place for an extremely short interval follow the approach of additional services, potential investors, examining the concepts of local government, through which would facilitate the reform process in all other areas and will allow for increased workflow, reduce losses, greater transparency, better allocation of resources, marketing more efficient, rapid and efficient communication, active policy development in the formation of industrial zones, free zones economy, in order to overcome the difficulties by regulating them. Experience has shown that the active policy approach of regulated spaces of infrastructure is the best step of attracting investors, also marketing is essential, because if someone does not listen to all that provide investment directions, it is like they do not exist. Competition today is experiencing development at a global level and a good marketing development for local authorities has the same meaning as for serious companies. Close cooperation between municipalities and especially the cross-border is essential if you wish to achieve success in applications for EU funds, or other donors.

Small family businesses in our place and around the World

All European countries give special attention to small businesses and have an exceptionally good system of financial and non-financial support which applies to the, national, regional and local levels, or in the context of the common policy of the EU. They have a good network of business incubators, areas for scientific and technological research and the number of clusters (groups), microcredit lines and other instruments to support small family businesses. In developed European countries, SME account for 99.7 of the total number of enterprises and employ about 70 percent of the employees in the economic sector.⁸ In Kosovo also 88.82 percent, or about 105 thousand are individually owned enterprise, while the number of employees is over 232 thousand or 81 percent. For us it is a very useful experience taking as example Spain and Italy, whose economic problems have been solved exactly by relying in good part, only in the development of SME. The rapid development of SME can be ranked among the priorities of the development of all countries in transition. The results achieved in individual countries differ, viewed in general or even the aspects that are important for SME.

Judging index of SME development, which is based on four economic parameters (part of private property in GDP (Gross Domestic Product), part of the SME sector in the GDP individual, part of the workforce in SME by total number of employees in the state as well as GDP per capita), in the range of quickly developing countries can be ranked Slovenia, Croatia, Estonia, Poland, Lithuania, Hungary and Slovakia.

Microeconomics, small and medium sized enterprises are of particular economic and social importance because they represent 99 percent of all EU companies. They provide around 90 million jobs and achieve employment of 60 percent of private sector workers, contributing more than half of the total added value created by

⁸ Ibidem

enterprises in the EU.⁹ Small and medium businesses are the backbone of the European economy, energy ventures, which are the main responsible for wealth and economic growth, competitiveness and employment. SME play a key role in bringing innovation, research and development. Family businesses, regardless of whether they are small, medium or large, everywhere in the world, constitute a significant part of the economy (e.g. In the EU about 66%).

According to the results of a survey which was conducted by the European Commission, across Europe, compared with countries such as the US and Japan, characterizes the presence of a great number of small enterprises. An Overwhelming number of these enterprises are individually owned (or those of managing a family) from 100 business groups before the Italian circular, more than 40% are family businesses, while in Germany the proportion is estimated at 17%, while in France 26 percent. This feature has become apparent in the last three decades; the development of SMEs has become a mass phenomenon (which means thousands of small and medium-sized family business). If the focus is placed only on manufacturing groups, approximately 50% of capital belonging to the family and this proportion constantly increasing.¹⁰

According to research business school "INSEAD",¹¹ some of the most successful companies in the world, are precisely the companies that are owned by a family. In Europe, such is a media company "RTL" which is a family- owned Bertelsmann, "Ericsson" is family owned Wellenberg, the shoe company "Baldini" is family owned

⁹ Zvezdan Djuric, " Mali porodicni biznis u funkciji drustveno-ekonomskog razvoja ", nê: *Socioeconomica*, vol. 1, N° 2, Beograd, December, 2012, f. 159. (also accessible: <http://www.socioeconomica.info/jspui/bitstream/11171/51/1/Djuric%20Zvezdan.pdf> visit 14/4/2015)

¹⁰ Dan, Johansson." Family Business, Employment, and GDP", Milan, June 2009, (5-23) (also accessible: <http://core.ac.uk/download/pdf/6258292.pdf> vizit: 13/04/2015)

¹¹ Massa, Massimo, " The Rothschild Chaired Professor of Banking and Professor of Finance at INSEAD ", September 25, 2014. (also accessible: <http://knowledge.insead.edu/organisational-behaviour/family-ownership-channels-to-innovation-3587> vizit: 14/04/2015)

Baldini, within which are known firms "Benetton" and "Barili" which are owned by the same family. In the US the largest family enterprises are: shops "Walmart", "Ford Motor Co.", "Cargill Inc.", "Motorola", "GAP", "Hallmark Cards", "Estee Lander Cos.", "New York Times" and others. The oldest family company in America is Avedis Zildjian established since 1623. Otherwise, Japan has more than one hundred thousand family companies which are older than a hundred years. Two-thirds of family enterprises experience a change of the second generation, while only a fifth manages to mutate change of third-generation family. When the third generation takes the reins of the company in its hands, then this business can be defined as a true family business. So in the US only 12 percent of family firms reach its third generation, while only 3% reaches the fourth generation.

The culture of entrepreneurship and innovation

One of the main prerequisites for business development is to strengthen the culture of entrepreneurship. Based on the current situation in Kosovo, this goal could be achieved through the expansion of the entrepreneurship program in primary schools, Education and Training offices (VET), secondary schools and institutions of education; promoting the success of enterprises implementing entrepreneurship programs for youth, women and minorities; promotion and public recognition of the contribution of the most successful enterprises; and encouraging and increasing the networking between businesses. This would be based on and harmonized with current and proposed interventions donor. Creativity and innovation are increasingly necessary for businesses to gain and maintain competitive advantages. Generally there is a lack of ideas to decide what businesses should be launched. Most of new businesses are "me too" businesses, due to the lack of ideas, innovation and creativity. The aim within the Strategy for the Development of SMEs - s will serve to develop training schemes for new owners and managers of

SME - s to introducing creativity and innovation.

In a further step towards candidate status for EU membership, Kosovo will begin to implement the EU Programme - Entrepreneurship and Innovation's (PNI).

Family Enterprise and professional management

Family business today, regardless of whether they are large or small, largely depend on the managers who are not family members, who most of the times are the main factors for the success of the family business. In a survey carried out by "Financial Times" successful firms that are more than 200 years old answered the question: "What has influenced your firm to survive, grow for all these years and experiencing the transfer of ownership through generations ", the response was:

- High quality product / service,
- Reinvestment of earnings,
- Ability to exclude incompetent family members,
- Desire and willingness to hire managers who are not part of the family, and who possess a unique set of skills and values.

The further study showed that emotions can lead to actions that are not based on rational thinking. Loss of control¹², lack of clearly defined rules and placed the company or individual members of the family, and the way in which some problems are understood and interpreted, show that family businesses are family oriented, ownership or management direction. In many cases, family rules are those who acquire and manage the business. If you want to avoid their leadership, the solution lies in engaging a professional manager who is not a family member.

¹² Zvezdan Djuric, "Mali porodicni biznis u funkciji drustveno-ekonomskog razvoja", në: *Socioekonomica*, vol. 1, N° 2, Beograd, December, 2012, f. 160. (also <http://www.socioekonomica.info/jspui/bitstream/11171/51/1/Djuric%20Zvezdan.pdf> vizit 14/4/2015) accessible:

Reconciliation in the field of ownership, work and family

Apart from the problems that are the same for all companies (strengthening innovative capacity, dealing with competition), family businesses are also exposed to the problems that arise because of the needs for harmonization of family, property and business point of view, the importance of preparations early transfer of ownership and management of the family business, special educational needs of entrepreneurship in education to lead the family firm and others. Successful family businesses are those that have a clearly defined demarcation of these areas. Also, those companies that have more harmony in the family have a successful company. Family businesses¹³ go well in situations of crisis and are not concerned about short-term goals, but look to the future, although sometimes cannot predict the future development of the business and is required to have adequate strategic plans. Disputes, regarding future strategies is the most common cause of disunity within the family business; such cases come to terms, especially with the death of a family member, disability or divorce of his own, which can destroy the family company. Increasing tensions and conflicts in family businesses are obvious. Therefore, it is very important to adopt procedures for the resolution of conflicts and tensions among family members, which is what most companies do not. It is better to agree on procedures to resolve disputes when there is peace and love in the family, but not when the war is already clear. Investors prefer family businesses and gladly accept to invest in them, but only if the family ownership is not greater than 35 to 40 percent. Where the ownership of a firm is about 70 percent, such firms are perceived as dangerous because of "relatives" so investors are reluctant to enter into transactions with them.

Advantages and disadvantages of family businesses

Successful family business is a very good opportunity for progress and foremost of the family and to the society. However, regardless of country, culture and size, family firms go through numerous cases and challenges, while the advantages and disadvantages based on family businesses are the following:

The advantages of family businesses:¹⁴

- Common goal: family members gather around a common project they usually have the same value system as well as ideas on how to become to realize that project.
- Their complexity (family members) contributes to increased motivation with which aims to achieve the international market competition.
- High dedication high: all family members work for themselves and not for the benefit of any other employer, it affects them to work with more pleasure, the easier it will invest time and energy to achieve a common goal.
- Mainly family has more meaning when expressing needs of its members, whether for vacation, leisure, flexible working time etc. ...
- The loyalty of the community, strong family connection is usually a guarantee that against the trials and challenges that stand in the community group will be easier to overcome the crisis, while in the most favorable period will be easier to success faster and easier to achieve.
- Stability: on the leadership of the family business always are taken into account children, grandchildren, and future generations, so when making business decisions about the outcome always are taken consideration the long-term and overall interests.
- Long-term relationship of trust with banks.
- Complying interest between owners and managers.

¹⁴ Jaka Vadrnjak, "Definicija i prednosti porodičnih firmi" në *Porodicne firme*. Beograd, December 02, 2014 (also accessible: <http://porodicnefirme.rs/2014/12/02/definicija-i-prednosti-porodicnih-firmi> vizit 13/04/2015)

Disadvantages of family businesses:¹⁵

- Inelasticity: the opposite of stability that the group has, or tendency toward long-term goals and desires to respect tradition, can easily become a weakness or no willingness to respond quickly and with flexibility when changes are required.
- Conflict of interest: due to family connections and business relations can sometimes come into conflicts of interest that (what is good for business - would not necessarily be good for the family and vice versa).
- Reflection of problems: family conflicts and problems often transferred at work.
- Survival business problems: although family businesses are dominant in the world of economy, many family businesses are closed during the change of generations.
- Recognition of the advantages and disadvantages of family businesses in times of crisis and recession helps to control negative influences and use positive ones.
- Council for the enterprises is planning the time change of generations, to formalize an internal organization, to develop a wide array of business and governance key employees outside the family.

Measures that should be taken so that family businesses have greater impact on socio-economic development¹⁶

Many different governments very often are not familiar with the specifics of family businesses and the role of their contributions that have economic and social development. Challenges of family

¹⁵ Jaka Vadnjal, "Definicija i prednosti porodičnih firmi" në Porodicne firme.Beograd, December 02, 2014 (also accessible: <http://porodicnefirme.rs/2014/12/03/slabosti-porodicnih-preduzeca> vizit 13/04/2015)

¹⁶ Zvezdan Djuric, "Mali porodicni biznis u funkciji drustveno-ekonomskog razvoja", ne: *Socioekonomica*, vol. 1, N° 2, Beograd, December, 2012, f. 162. (also accessible: <http://www.socioekonomica.info/jspui/bitstream/11171/51/1/Djuric%20Zvezdan.pdf> visit 13/04/2015)

businesses in the Balkans in general, but also in Kosovo in particular, are almost similar to those in the European Union practices.

In order for family businesses to be more influential in social and economic development of a country should be taken the following actions:

- Since government policies to be more informed about the role and importance of family businesses and their role in social and economic development of the country.
- Governments to define the family businesses.
- To perform statistical research about family businesses.
- Creating the most appropriate legal regulatory for transferring of ownership in the cheaper and easier way.
- Improving education
- Development of new mechanisms for financing family businesses.
- To determine special institutions to collect information and to listen to the problems faced by family businesses.
- Include representatives of the family business in public private dialogue.
- To establish groups of experts to propose policies and instruments for the family business.
- The government should analyze with served examples of best practice policies to family businesses in the Netherlands¹⁷, Slovenia¹⁸, Spain¹⁹ and Belgium²⁰.

¹⁷ Self Government in different ways encourages the family business . Family business owner who has spent 55 years of life sends letter of seeking to appoint a successor . However, only 30 % of family businesses will continue en second generation ;

¹⁸ Slovenia : Chamber of Handicraft and Small - training and seminars (emotional aspects , legal and fiscal Transfer Ownership and Management) ;

¹⁹ Spain - measures to resolve conflicts between family members dealing with its management company ; Spain (Valencia) - financially regional government subsidizes specialized teams of experts to develop the protocol family;

Conclusion

Family firms present the oldest and the most common form of business organization in the world. Today, we cannot accurately estimate the impact, the power, and potential of family businesses, but it seems that family-owned companies have little attention.

Family businesses experience the same success factors as well as all other companies, they need to develop management system and seek their position in the market, but the essential priority of family companies is the fact that the family lives with the company 24 hours a day. Family businesses are more focused, more responsible, and they care for the community. They are focused on long-term business success and continue to invest in the business, even when recorded the satisfactory results.

Even in bad condition, family businesses should lead to the exit from the crisis! Family companies have proven to be an important part and quite successful throughout the world economy. Although, today we face a difficult business environment, we hope that Kosovo companies will be crucial to overcome the economic crisis.

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